c. Capital Recovery

Depreciation rates have also been utilized by regulators as a tool to promote universal service. ⁵⁹ Even as the recovery of the investment was delayed beyond economic lives, recovery was possible where competition was less prevalent. With increased competition and advancements in technology, exchange carriers must accelerate network investment. Competitors providing digital and fiber networks can force traffic off of exchange carrier embedded facilities, particularly in high-volume areas where it is cost efficient for the competitor to provide service. Exchange carriers are now faced with the problems of underdepreciated investment. This underdepreciated investment denies the public the full benefits of newer technologies and places exchange carriers at a competitive disadvantage. Exchange carriers should be afforded the opportunity to accelerate the recovery of this investment, as well as devalued investment, and to establish depreciation rates which better reflect market conditions. ⁶⁰

IV. THE AMENDMENTS TO THE COMMISSION'S RULES AND REGULATIONS PROPOSED HERE ARE IN THE PUBLIC INTEREST

The public interest is best served when all parties, both customers and service providers, realize the maximum possible benefits. As previously indicated, the public interest was well served by the original interstate access services charge plan at its

⁵⁹Lengthening depreciation lives served to decrease depreciation expense which reduced revenue requirements and thus, pricing levels.

⁶⁰See, also, USTA comments filed in Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Notice of Proposed Rulemaking, 8 FCC Rcd 915 (1992).

inception. However, regulators now acknowledge⁶¹ that the existing access framework is no longer fully effective and no longer properly serves the public interest. The Commission has been successful in achieving its goal of promoting the growth of competition in the access marketplace. The Commission can be equally successful in correcting the inadequacies of the existing access rules.

The Act does not require the Commission to utilize a specific regulatory framework to carry out its statutory obligations with respect to access pricing and rate structure.⁶² The Act affords the Commission discretion in selecting the appropriate tools to regulate the telecommunications industry and to serve the public interest.⁶³ USTA's proposal will permit the Commission to address the competitive environment it has sought to create by basing the level of regulatory oversight necessary on the extent to which competition exists in a carrier's market area. Thus, the proposal effectively ensures that the maximum benefits of competition flow to consumers and that the public interest is served.

The proposed reforms create a more flexible environment for the introduction of new services. Customers expect a quick response to their requests for services to meet

⁶¹This is clearly demonstrated by the recently released Staff Analysis and by the NARUC Petition for Notice of Inquiry.

⁸²<u>Policy and Rules Concerning Rates for Dominant Carriers</u>, CC Docket No. 87-313, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873 (1989) at ¶ 881.

⁶³<u>Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Notice of Proposed Rulemaking, 2 FCC Rcd 5208, para. 22 (1987).</u>

evolving needs. Under the existing structure, the exchange carrier lacks the ability to compete effectively if the requested service does not neatly fit into one of the defined elements codified in Part 69 of the Commission rules and regulations. As services become more complex, they will not fit into the Part 69 framework. Neither customers nor exchange carriers should be disadvantaged simply because a customer's request in 1993 does not correspond to 1983 rules.

The Commission should also ensure that the regulation it employs does not result in inefficient use of the network. Rates based on arbitrary cost allocations have resulted in distorted pricing signals. Such distortions result in the uneconomic provision of services and a reduction in consumer welfare. In the price cap proceeding, the Commission recognized that allowing exchange carriers limited pricing flexibility would allow relative rates to be set at more efficient levels. Tying regulatory oversight to the degree of competition in market areas will allow greater opportunities for these efficiency enhancing adjustments in areas where competition is greatest.

The proposed reforms seek to allow market area characteristics to play an increasing role in price management. The Commission's recent approval of limited zone pricing was a small step towards realizing the importance of market characteristics. However, zone pricing still results in an aggregation of wire centers that may not be economically efficient and therefore may not best serve the public interest.

The classification of wire centers according to their competitive circumstances will allow the most competitive market areas to be individually managed. It is within these market areas that the full benefits of competition can be realized. In these areas, current regulation would only serve to inhibit the benefits of competition. Those areas experiencing transitional competition should be afforded the latitude necessary to allow them to expand and develop into full CMAs. As a result, the public interest could begin to be served by expanded, market-based carrier competition on an immediate basis in transitional market areas, instead of waiting until a prescribed percentage of market areas were deemed to be fully competitive. One fixed rule cannot serve all markets. In developing appropriate regulatory rules for a competitive environment, regulation should be applied to markets evenly, not just to "large" firms or certain market participants.⁶⁴

While price cap carriers currently generally cannot increase the service band index by more than 5 percent relative to the price cap index, the proposed rules recognize that greater downward pricing flexibility also is necessary as the competitive level of the market area increases. Therefore, a different downward range is established for IMAs and TMAs. Since each access category is "capped" with revenue requirement constraints, and price increases are limited, the non-price cap exchange carrier will be effectively precluded from instituting large price increases to offset revenue or price decreases resulting from competition.

⁶⁴See generally, D. Spulber, Regulation and Markets (1989).

This flexibility will allow customers in transitional and competitive markets to realize the benefits of competition immediately rather than being held in "regulatory gridlock" until all market areas begin to evolve. The proposed rules would create a regulatory scheme which is more immediately responsive to market area evolution and customer needs. The public interest will be best served by a structure that enables all service providers to meet individualized customer needs, that promotes the introduction of new services and that enable customers to realize the maximum benefits of competition.

VI. A NOTICE OF PROPOSED RULEMAKING IS THE APPROPRIATE VEHICLE FOR ADDRESSING INTERSTATE ACCESS REFORM

Absent a rulemaking proceeding, meaningful reform of the interstate access framework cannot be accomplished. A "piece-meal" approach in which limited issues are addressed in a vacuum will not permit the Commission to fully address the impact of the new environment on the provision of interstate access by exchange carriers. Because of the growing importance of telecommunications to the economy, and to the nation's competitiveness, our regulatory system cannot operate by exception or on an ad hoc basis. Many temporary adjustments and "patches" have been effected within the access framework. However, these limited "fixes" cannot provide the overall access reform policy necessary to ensure competitiveness in the global economy. Likewise, a NOI, as

est the Commission's task force reasoned that the "rules should afford the LECs sufficient flexibility to price competitively while at the same time constraining their ability to cross-subsidize their competitive services with rate increases for noncompetitive services. The rules should also limit regulatory imposed distortions in access rates to the extent possible without unduly threatening universal service objectives." Staff Analysis at p. 45.

requested by NARUC, will introduce an additional procedural step which will only serve to delay needed reform. Such delay is unreasonable given the changed access environment.

The Commission has already amassed a significant record on access issues. It is time to focus the debate on an immediate response to the issues which have already been raised. USTA's Petition recommends a coordinated review of the critical issues and proposes integrated rules to accommodate the changing marketplace. This Petition and the other material currently in the public record are sufficient to allow the Commission to initiate a rulemaking proceeding. This should be done without further delay.

VII. SYNOPSIS OF USTA'S ACCESS REFORM RULE RESTRUCTURING

Attachment 7 contains the specific text of USTA's rules changes as well as a detailed summary.. However, because the changes are extensive and involve many different parts of the current rules, the following synopsis may be helpful in providing a roadmap of the proposal:

Part 43

- Eliminate detailed reporting requirements

Part 61

- Move LEC price cap rules to a new Pricing Part (Part Y)
- Leave dominant interexchange carrier price cap rules in Part 61
- Move section 69.3 (Filing of access service tariffs) to Part 61

- Modify filing support information to reflect appropriate IMA, TMA and CMA filing requirements
- Modify notification periods to reflect new service and pricing change criteria for IMA, TMA and CMA
- Add applicability of contract tariffs for CMAs and for TMAs in response to an RFP

Part 64

- Move cost recovery/funding language for Telecommunications Relay Service to a new Public Policy Part (Part Z)

Part 65

- Eliminate certain rate of return requirements for price cap LECs
- Modify requirements to reflect Transport, Switching, Public Policy and Other access categories

Part 69

- Replace Part 69 with a new Pricing Part (Part Y) and a new Public Policy Part (Part Z)
- See Attachment 7 "Modification Synopsis for Part 69" for moves and deletions

Part Y - Pricing

- New Part to consolidate price cap and non-price cap pricing regulations for LFCs
- Move LEC price cap rules from Part 61 to this Part
- Move non-public policy related regulations from Part 69 to this part
- Part Y is organized as follows:
 - Subpart A General
 - Subpart B Market Area Classification
 - Subpart C Price Cap Rules
 - Subpart D Non-Price Cap Rules

- Subpart E Cost Allocations for Non-Price Cap LECs
- Subpart F Cost Allocations for Price Cap LECs

Part Z - Public Policy

- New Part to consolidate public policy elements/regulations and to separate these regulations from LEC pricing regulations
- Part Z is organized as follows:
 - Subpart A General
 - Subpart B Charges to be Assessed
 - USF
 - Lifeline
 - TRS
 - EUCL
 - CCL
 - Special Access Surcharge
 - Interconnection Charge
 - LTS
 - Cross Connect Charges
 - Contribution Charges
 - Subpart C Optional Alternative Carrier Common Line Tariffs
 - Subpart D Segregation of Public Policy Access Category Element Revenue Requirement for Non-Price Cap LECs
 - Subpart E Exchange Carrier Association

VIII. CONCLUSION

The Commission should promptly commence a rulemaking consistent with the proposals contained herein that will achieve the seven public interest objectives identified herein.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

Martin T. McCue

Vice President & General Counsel

Linda Kent

Associate General Counsel

900 19th Street, NW, Suite 800 Washington, D.C. 20006-2105 (202) 835-3100

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Sampling of Recent LEC Part 69 Waiver Requests to Establish New Rate Elements

Information Surcharge Rate Element

On December 3, 1990, Southwestern Bell requested a waiver of Part 69 of the Commission's Rules to permit the establishment of an Information Surcharge Rate Element within the Information category to recover certain costs associated with the publication of white pages. The waiver was approved, ten months later, on October 9, 1991. See Southwestern Bell Telephone Company Petition for Waiver of Part 69 of the Commission's Rules for Information Surcharge Element, Order, Released October 9, 1991.

Electronic White Pages

On May 18, 1990, U S WEST filed a petition for waiver of Part 69 of the Commission's rules to establish a new rate element and new subelements in the Information Element for its new Electronic White Pages service. The waiver request was granted by the Commission four months later on September 14, 1990.

On July 10, 1990, The New York Telephone Company and New England Telephone and Telegraph Company (NYNEX) filed a petition for waiver of Part 69 of the Commission's Rules to establish new rate elements for Electronic White Pages. Four months later, on November 27, 1990, the Commission granted the request.

On September 28, 1990, Cincinnati Bell Telephone Company (CBT) filed a Petition for Waiver of Part 69 of the Commission's Rules to establish a new Switched Access rate subelement in the Information element category of a proposed Electronic White Pages service. The waiver was approved five months later, on February 19, 1991. See Petition for Waiver of Part 69 of the Commission's Rules for Electronic Directory Assistance Service, Order, Released February 19, 1991.

Common Channel Signalling

On January 31, 1991, fourteen months following the filing, the Commission denied the Ameritech Operating Companies' request for a waiver of Sections(s) 69.4(b), 69.206, and Subparts B, D and E of Part 69 of the Commission's rules to permit the unbundling of charges for the port that would be utilized by parties desiring access to the Companies' Signaling System 7 network. Such unbundling would have permitted the Companies to assess certain charges only on those end users causing the costs to be incurred.

On June 11, 1990, Southwestern Bell Telephone Company (SWBT) filed a petition for waiver of Part 69 of the Commission's rules to establish a new switched access rate element for its common channel signalling (CCS) interconnection service. On June 14, 1990, SWBT filed a petition for waiver of Part 69 to establish two new switched access rate elements for access to the data in SWBT's line identification database (LIDB). Sixteen months later, on October 4, 1991, the Commission conditionally granted the requested waivers. See Southwestern Bell Telephone Company Petitions for Waiver of Part 69 of the Commission's Rules, Memorandum Opinion and Order, Released October 4, 1991.

Operator Services

On October 12, 1969, Southwestern Bell filed a petition for waiver of Part 69 of the Commission's rules to establish separate rate elements for operator services provided to interexchange carriers (including 0- transfers). Seven months later, on May 31, 1990, the Commission granted the requested waiver.

On February 6, 1990, the Ameritech Operating Companies (Ameritech) filed a petition for waiver of Section 69.4(b) of the Commission's rules in order to establish separate rate elements for operator transfer services for its interexchange carrier (IEC) access customers. On March 5, 1991, thirteen months later, the waiver was granted. See Ameritech Operating Companies Petition for Waiver of Section 69.4(b) of the Commission's Rules, Memorandum Opinion and Order, Released March 5, 1991.

On January 29, 1990, NYNEX filed a petition for waiver of Section 69.4 of the Commission's rules to establish separate rate elements for Busy Line Verification and Busy Line Verification/Interrupt services. On March 5, 1991, thirteen months later, the waiver was conditionally granted. See New York Telephone Company and New England Telephone and Telegraph Company Petition for Waiver of Section 69.4(b) of the Commission's Rules, Order, Released March 5, 1991.

Switched 56 KBPS Service

On May 18, 1990, Rochester Telephone Company filed a petition seeking a waiver of Section 69.4(b) of the Commission's Rules to permit Rochester to offer interstate switched 56 KBPS digital service. Four months later, on September 14, 1990, the Commission granted the waiver request.

Optional Switched Access Package with Volume Discount

On August 21, 1987, GTE filed a petition for waiver to establish elements for a new optional switched access plan called PSA. PSA was designed to complement high-volume unbundled interexchange services such as Megacom. It incorporated volume and time-of-day discounts, and offered switching, routing, and billing features tailored to the needs of high-volume customers. On August 2, 1988, twelve months later, the petition was denied.

New Technologies and Services Structure Issues

New Services Will Present Regulatory Challenges

Changes in technologies and services and in the Commission's policies for access services which have occurred since the access charge plan was developed in 1983 have caused the plan to become outdated. In reforming the access charge plan, consideration must be given to ensure that the plan is dynamic and flexible so that it does not once again become outdated.

Encouraging the introduction of new services and technologies is a stated objective of the Commission. Rapid changes in technology are making possible the development of a wide range of new access services. However, the existing framework of access rules impedes the development and introduction of these new services. Because the existing rate structure rules are prescriptive, they must be waived or changed to introduce new elements. As demonstrated in Appendix A, this traditionally has been a protracted process.

But the incompatibility of the rules with new services goes beyond the waiver process. Waivers have been delayed in part because the access structure itself is too rigid, and new services do not fit logically into the structure. Each petition has therefore created issues of service classification or consistency with the existing structure. As the new services differ more and more from the 1983 technology embedded in the rules, customers will increasingly be frustrated in obtaining the telecommunications services they desire.

New services which provide private line functions using shared, switched resources under software control will appear to be "switched" services under current definitions. However, the rate structures prescribed for the current switched services may be incompatible with these offerings. The switched access rules also provide only for two-point service, while some offerings will involve multipoint bridging arrangements. Some new services will provide both dedicated bandwidth, like today's special access services, and usage-based functions similar to today's switched access, on an integrated basis. These services "straddle" the current switched and special categories; yet, depending on which category they are placed in, very different cost allocation and pricing requirements would apply. Current rules also make it difficult to interconnect switched and special services. This has led to limitations in the arrangements customers could establish using the new integrated services. Other services are simply not addressed in the current structure.

Assumptions built into the existing rules may also result in rates for some new

services which are severely distorted from the level a market outcome would produce, therefore discouraging LECs from proposing such services. Current rules for switched services, for example, call for rates to be based on relative usage or equivalent voice grade channel capacity.

The rules also limit customers' ability to request and receive new service packages which meet their particular needs, and which are priced to be economically efficient. As AT&T has shown with its optional calling plans, such packages can significantly expand the range of choices available to customers. They can also be vehicles for introducing more efficient, non-uniform pricing structures. However, the difficulty of obtaining waivers for new rate elements, the requirement for study area averaging, and the Commission's past unwillingness to permit volume discounts for switched access services, forestall the development of new package options.

Telecommunications customers increasingly demand expanded capabilities: from voice communications to transmission and processing of information (i.e., voice, data, image) among terminals and databases; from providing transport services to providing network capabilities; from standardized services to market or customer specific offerings; from carrier control to customer control; from local to global services. User-switched, two-way fully interactive video conferencing networks are replacing video-tape production and one-way visual communication in the business, education, and government market sectors. While telephone companies, cable systems and other service providers seek to meet these market demands, regulatory rules, as opposed to customer choice, dictate which ones will be the market providers. This precludes economically efficient competition.

By the year 2000, end users may see cellular telephony as a complement or even successor to conventional phone services. The mobility of wireless technology will allow for the evolution of personal communications networks (PCNs). The assignment of a number to each person will allow the person to answer a call anywhere. Ubiquitous PCNs depend on cooperation among many service providers -- LECs, interexchange carriers, cellular and paging operators, additional PCN operators, customer premises equipment suppliers -- as well as regulators. Calls will transit multiple networks destined for switching transfer points where routing information will be stored to control the switching and routing of the call.

Services which are being considered for introduction in the next decade include the following:

Customer Service - a set of inbound telemarketing capabilities which enable a telemarketer to display the calling customer's client information, and perform interactive call routing, selective call treatment and network-to-user signaling.

These new switched access offerings could be built on new or restructured basic service elements (BSEs), which would require FCC waivers. A new BSE must be approved under the process outlined in Part 69.119 of the Commission's rules prior

to a tariff filing.

Transaction Processing - on line information processing supporting standard business transactions like credit card authorization and Automatic Teller Machine transactions.

This service may include dedicated connections to a data base such as the Line Information Database (LIDB) and may include a look-up in the data base.

Switched High Speed Service - a switched n x 1.544 Mbps service in support of point to point and point-to-multipoint transmission.

The switching arrangement may be considered switched access, and if so, a Part 69 waiver will be required to establish rate elements. In addition, while the Commission's policies have historically required usage based rate elements for switched services, switched high speed service may more appropriately be offered on a flat rate or some other basis. These rules also do not currently provide for serving arrangements which combine a switched service with existing special access services.

Switched Multi-megabit Digital Service (SMDS) - a high speed public packet service which provides local area network-like performance and features over a wide area.

Packet Service is not addressed in Part 69 Rules. As a switched service, waivers of local switching and switched transport (Rules 69.106, 69.111 and 69.112) may be required. This service raises issues similar to those raised by switched high speed service.

Switched Fractionalized 1.544 Mbps Service - includes Non-ISDN switched 1.536 Mbps service, ISDN switched .384/1.536 Mbps service, and ISDN n x 64 fractional 1.544 Mbps service.

Averaged rates, based on previous cost allocations, for existing elements (e.g. channel terminations) may not be consistent with market prices for these newer services. Competitive rates may be prohibited without waivers. The classification of these services between the current switched and special categories is also not clear.

Multimedia Conferencing Service - transport switching and bridging of audio and video information streams.

It is not clear how the existing rules for switching and switched transport services would apply to this offering. Current rates, applied to the throughput associated with this service, would lead to rates which would not be acceptable in the marketplace.

Customer Network Management - information on circuit performance, control of service parameters and control of bandwidth provided directly to the customer for both switched and special access capabilities.

The current rules do not accommodate services which can be used for both switched and special applications under customer control.

Video Delivery - the use of video delivery networks with video transfer rates between 3 and 6 Mbps to deliver high quality video images.

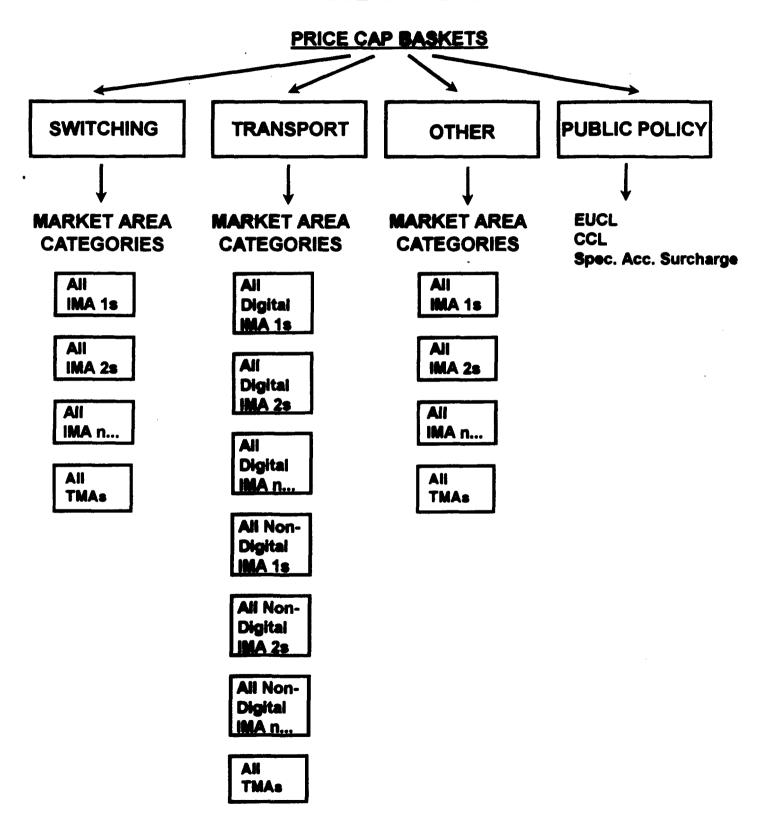
The current rules do not provide for facilities used jointly for both video and POTs services.

Personal Access Service - use of a North American Number Plan based number to facilitate the receipt of incoming calls while permitting the subscriber to be away from their primary station.

The current rules do not accommodate the assignment of the infrastructure required to implement personal access service (e.g. SS7 signalling and data base).

interpersonal Messaging - a message transfer and routing service which utilizes telephone number addressing and which transfers messages (including voice mail, e-mail, facsimile mail and multimedia mail) between public and private systems.

PROPOSED BASKET DESIGN FOR PRICE CAP LECS



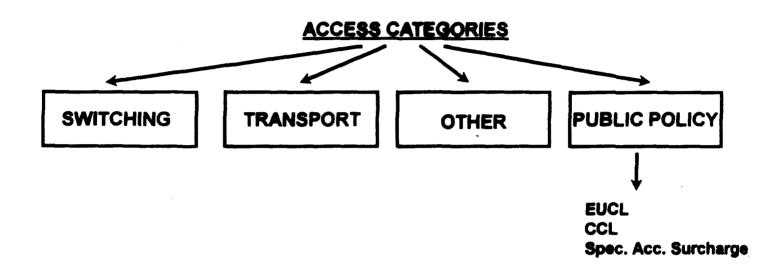
NOTE: The Transport Basket includes the Interconnection Charge element.

Attachment 4 PROPOSED STRUCTURE FOR **NON-PRICE CAP LECS ADOPTING OIR ACCESS CATEGORIES SWITCHING TRANSPORT PUBLIC POLICY** OTHER MARKET AREA **MARKET AREA EUCL** MARKET AREA CCL **CATEGORIES** CATEGORIES **CATEGORIES** Spec. Acc. Surcharge All All All Digital IMA 1s IMA 1s IMA 1s All All All IMA 2s IMA 2s Digital All AII IMA n... IMA n... Ali **Digital** All All TMAs TMAs All Non-**Digital** IMA 1s All Non-**Digital** MA 2s All Non-**Digital MA** n... AH

NOTE: The Transport Access Category includes the Interconnection Charge element.

TMAs

PROPOSED STRUCTURE FOR NON-PRICE CAP LECS NOT ADOPTING OIR



NOTES: (1) The Transport Access Category includes the Interconnection Charge element.

(2) Non-price cap LECs not adopting OIR may elect to use either the above structure or the structure proposed for LECs adopting OIR.

PROPOSED COST AND DEMAND SUPPORT

Support Requirements for Price Cap LECs							
Type of Filing	Cost Support Requirements			Demand Support Requirements			
	IMA	TMA	CMA	IMA	TMA	CMA	
In Band	None	None	N/A	Yes	Yes	N/A	
Below Band	Yes	Yes	N/A	Yes	Yes	N/A	
Annual	None	None	N/A	Yes	Yes	N/A	
Restructure	None	None	N/A	Yes	Yes	N/A	
New Services	Yes	Yes	None	Yes	Yes	None	
Contract Services	N/A	Yes	None	N/A	Yes	None	

	Support R	equirement	for Non-P	rice Cap LE	EC s	
Type of Filing	Cost Support Requirements			Demand Support Requirements		
	IMA	TMA	CMA	IMA	TMA	CMA
Rate Change	None	None	N/A	Yes	Yes	N/A
Biennial/Annual	Yes	Yes	N/A	Yes	Yes	N/A
Restructure	None	None	N/A	Yes	Yes	N/A
New Services	Yes	Yes	None	Yes	Yes	None
Contract Services	N/A	Yes	None	N/A	Yes	None

None: Indicates cost and/or demand support is not required for the particular type of filing within that market area.

N/A: Indicates the particular type of filing is not applicable for that market area.

Yes: Indicates varying degrees of cost and/or demand support is required for the particular type of filing within that market area.

Attachment 7

USTA Petition for Rulemaking Reform of the Interstate Access Charge Rules Proposed Revisions to the FCC's Rules

Attachment 7

USTA Petition for Rulemaking Reform of the Interstate Access Charge Rules

Proposed Revisions to the FCC's Rules

In this Attachment, USTA describes the specific revisions to the FCC's rules that will be required to implement its Interstate Access Reform Proposal. The specific sections of the FCC's rules that require revision include:

Part 61 Tariffs

Part 64 Miscellaneous Rules Relating to Common Carriers

Part 65 Interstate Rate of Return Prescription ---- Procedures and Methodologies

Part 69 Access Charges

USTA proposes to replace the current Part 69 of the rules with two new sections:

Part Y	Pricing	provides the pricing rules for local

exchange carriers subject to either rate of

return or price cap regulation.

Part Z Public Policy -- provides rules relating to various

elements established to promote public

policy objectives, including the

Universal Service Fund, Lifeline, TRS Carrier Common Line, Long Term Support, Interconnection Charge, etc.

Summary of Proposed Rules Revisions

The following is a brief overview of the changes that are proposed to the various Parts of the FCC's rules:

Part 43 Reports of Communication Common Carriers and Certain Affiliates

• Quarterly operating reports of revenues, expenses, taxes, plant in service, other investment and depreciation reserves and other data will be reported on a state/interstate basis -- but not common line, traffic sensitive access, special access and non-access categories.

Part 61 Tariffs

- Include the tariff filing requirements for all-carriers, including local exchange carriers and interexchange carriers;
- Price Cap rules for local exchange carriers are generally moved to the new Part Y -- Pricing, and Part Z -- Public Policy;
- Price Cap rules for interexchange carriers remain in Part 61;
- Annual tariff filing requirements are moved from Part 69 to Part 61;
- A new Section 61.29 provides requirements for local exchange carrier tariffs which establish or modify market area categories, including Initial Market Areas (IMAs), Transitional Market Areas (TMAs) and Competitive Market Areas (CMAs).
- A new Section 61.30 is included to provide tariff filing requirements for rate of return local exchange carriers offering services in an IMA, TMA or CMA.
- A new Section 61.31 is included to provide tariff filing requirements for price cap local exchange carriers offering services in an IMA, TMA or CMA.
- Section 61.55 -- Contract-based tariffs -- is moved to new section 61.40 and is modified to permit local exchange carriers to offer contract-based service in CMAs. This revised section also provides filing requirements for contract-based services offered in a TMA.

Summary of Proposed Rules Revisions

Part 61 Tariffs (continued)

- Section 61.58 is modified to **establish** notice periods for local exchange carrier filings in IMA, TMA, and CMA market areas.
- Section 61.74 is modified to permit local exchange carriers to file tariffs which reference technical publications without first obtaining a waiver of the rules.

Part 64 Miscellaneous Rules Relating to Common Carriers

 The cost recovery and funding rules pertaining to Telecommunications Relay Services are moved from Subpart F, Part 64 to the new Part Z.104 -- Public Policy;

Part 65 Interstate Rate of Return Prescription ---- Procedures and Methodologies

- The rules are modified to eliminate rate of return prescription and reporting for price cap local exchange carriers. This modification is consistent with the proposed elimination of sharing for price cap local exchange carriers. Reporting as required to maintain Unitary Rate of Return is maintained.
- The rules are modified to reflect the proposed replacement of the existing access categories with the new Transport, Switching, Public Policy and Other categories.

Part 69 Access Charges

- The current Part 69 rules are generally transferred to the new Part Y
 Pricing or the new Part Z -- Public Policy. A synopsis of the status of each of the current sections of Part 69 is included in this attachment.
 The synopsis indicates whether a particular section has been moved to Part Y, Part Z, Part 61 or been deleted. The more significant changes include:
 - Part 69.3 -- Filing of Access Services Tariffs -- has been moved to Part 61 of the rules:

Part 69 Access Charges (continued)

- Subpart B -- Computation of Charges -- has generally been deleted, with the exception of public policy elements, which are transferred to the new Part Z -- Public Policy;
- Subpart C -- Computation of Transition Charges -- has generally been deleted, with the exception of optional carrier common line tariff provisions, which are transferred to the new Part Z -- Public Policy.
- Subpart D -- Apportionment of Net Investment and Subpart E --Apportionment of Expenses -- have been moved to the new Part Y -- Pricing:
- Subpart F -- Segregation of Common Line Element Revenue Requirement and Subpart G -- Exchange Carrier Association -- have been moved to the new Part Z -- Public Policy.

Part Y -- Pricing

- This proposed part replaces Part 69 and establishes the pricing rules for local exchange carriers.
- Section Y.101 provides for the establishment of IMA, TMA and CMA market areas.
- Section Y.102 provides for general IMA, TMA and CMA market area pricing regulations.
- Subpart C contains pricing regulations for price cap local exchange carriers. The existing price cap rules for local exchange carriers have been moved from Part 61 to this Part and modified to reflect the proposed basket and market area category framework.
 - Section Y.202 provides for the establishment of Transport, Switching, Public Policy and Other price cap baskets. This section also provides for the establishment of IMA and TMA market area categories as a replacement for the current price cap service categories.
 - Section Y.205 specifies the banding limits on IMA and TMA market area categories.

Part Y -- Pricing (continued)

- Subpart D contains pricing regulations for non-price cap local exchange carriers and is segmented between local exchange carriers who have adopted the Optional Incentive Regulation (OIR) plan and those local exchange carriers who have not adopted the OIR plan.
 - Section Y.302 provides for the establishment of Transport, Switching, Public Policy and Other access categories. Section Y.304 provides for the creation of IMA and TMA market area categories.
 - Section Y.305 provides the specific pricing regulations for those local exchange carriers who have adopted OIR. These pricing regulations establish a market area category framework with banding limits similar to the price cap framework.
 - Local exchange carries who have not adopted OIR may choose to follow the pricing regulations established for OIR companies or the pricing regulations specified in Section Y 306.
- Subpart E contains cost allocation rules for non-price cap local exchange carriers. These rules specify the assignment of investment and expense to the Transport, Switching, Public Policy and Other access categories.
- Subpart F contains cost allocation rules for price cap local exchange carriers. These rules specify the assignment of investment and expense to an End User Common Line element for the development of a Base Factor Portion (BFP).

Part Z - Public Policy

- This new part establishes rules for the management of mechanisms developed to support public policy objectives.
- This Part applies to all common carriers and specifies public policy elements and how these elements are managed.